

Message Text

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ACTION EB-11

INFO OCT-01 NEA-10 IO-14 ISO-00 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 OMB-01

AF-10 ARA-16 EA-11 EUR-25 OIC-04 DRC-01 /244 W

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TO SECSTATE WASHDC 2367

INFO AMEMBASSY NEW DELHI

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E.O.11652 NA

TAGS ETRD GATT IN

SUBJ GATT BALANCE OF PAYMENTS COMMITTEE-INDIA, OCT 31

REF STATE 213636, TSC DOC 73-56

SUMMARY: U.S. PRESSED CASE AGAINST SEVERITY AND PROLIFERATION OF INDIA'S IMPORT CONTROLS, AND WAS SUPPORTED BY JAPAN AND TO LESSER EXTENT BY CANADA. SEVERAL OTHERS EXPRESSED CONCERN OVER COMPLEXITY OF INDIAN LICENSING SYSTEM. IMF REP INDICATED INDIA'S RESERVES PROBABLY NOT AT COMFORTABLE LEVEL, A VIEW WHICH U.S. DEL RESISTED. END SUMMARY.

1. GATT BALANCE-OF-PAYMENTS COMMITTEE OCCUPIED FULL-DAY SESSION OCTOBER 31 WITH AIRING OF INDIA'S IMPORT RESTRICTIONS UNDER GATT ARTICLE XVIII. IMF REP AVOIDED JUDGING FORMALLY WHETHER INDIA'S RESERVES WERE SUFFICIENT BUT SAID ALLOWANCE SHOULD BE MADE FOR FOOD IMPORT NEEDS PROMPTED BY RECENT DROUGHT AND BELIEVED CURRENT RESERVE LEVEL PARTLY DUE TO CIRCUMSTANCES WHICH MAY NOT CONTINUE, SUCH AS HIGH PRICE
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OF JUTE. INDIAN DEL EMPHASIZED CURRENT FOODGRAIN IMPORT

NEEDS OF PERHAPS \$400 MILLION AND SAID WIDE FLUCTUATION IN AGRICULTURAL OUTPUT AND HEAVY DEBT SERVICE MEANT CURRENT RESERVES NOT ADEQUATE. U.S. REP (SPRUCE) STATED MID-1973 RESERVES OF U.S. \$1.3 BILLION NOW IN EXCESS OF SIX MONTHS' ANNUAL IMPORTS. RESERVE RATIO HAS CONSISTENTLY GROWN OVER SEVERAL YEARS, NOT ONLY THIS YEAR, AND U.S. DEL OBSERVED THAT LATEST IMF ANNUAL REPORT GENERALLY REFERRED TO RESERVES OVER 50 PERCENT AS NOT BEING MERELY ADEQUATE OR COMFORTABLE BUT RATHER AS EXCESSIVE.

2. IMF REP AGREED THIS STANDARD OFTEN USED BUT, WITHOUT FORMALLY JUDGING ADEQUACY OF RESERVES, FELT INDIA'S UNSTABLE FOOD NEEDS TENDED EXCLUDE THEM FROM THIS DEFINITION. U.S. DEL EXPRESSED UNDERSTANDING FOR INDIA'S FOOD NEEDS BUT OBSERVED THAT RECENT GOOD RAINS PORTEND MAJOR IMPROVEMENT DURING COMING YEAR. ALSO POINTED OUT THAT INDIA'S RESERVES ARE 100 PERCENT OF ANNUAL FREE FOREIGN EXCHANGE IMPORTS (E.E. THOSE EXCLUDING RUPEE-AREA BILATERAL BARTER TRADE AND EXCLUDING IMPORTS FINANCED BY TIED AID). INDIA DEL SAID THIS STANDARD IRRELEVANT, THAT AN IMPORT IS AN IMPORT, AND IT MAKES NO DIFFERENCE WHETHER FINANCED VIA FREE FOREIGN EXCHANGE OR ANY OTHER WAY. (NOTE: THIS STAND IS IN CONTRAST WITH THAT MAINTAINED BY GOVERNMENT OF INDIA IN CONSORTIUM DEBT RESCHEDULING NEGOTIATIONS.)

3. CANADA AND JAPAN ALSO NOTED RECENT IMPROVEMENT IN INDIAN RESERVE POSITION AND EXPRESSED HOPE IMPORT RESTRICTIONS COULD BE LOOSENED. JAPAN ASKED DISMANTLING OF BILATERAL TRADING ARRANGEMENTS, WHICH IT SAID INCONSISTENT WITH GATT. JAPAN AND FRENCH DELS (FRENCH SPOKE INDEPENDENTLY OF EC REP SEVERAL TIMES) CALLED FOR GREATER EXPORT PROMOTION EFFORTS BY INDIA AND ELIMINATION OF SUCH CONSTRAINTS AS EXPORT TAX ON MANGANESE.

4. INDIAN DEL FOLLOWED WITH GLOWING ACCOUNT OF EFFICIENCY OF INDIAN INDUSTRY, INCLUDING EXPORT INDUSTRIES, AND STATED ONLY REAL OBSTACLE TO SIGNIFICANT EXPANSION OF EXPORTS OF MANUFACTURED GOODS WAS PRODUCTION CAPACITY AND OTHER COUNTRIES' TRADE BARRIERS--SPECIFICALLY MENTIONING TEXTILES--; HOPED MULTILATERAL TRADE NEGOTIATIONS (MTN) WOULD CORRECT THIS. IMF REP CAUTIONED AGAINST SUCH OPTIMISM OVER MANUFACTURED LIMITED OFFICIAL USE

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EXPORT PROSPECTS. U.S. JOINED IN HOPE FOR SUCCESSFUL MTN BUT SAID ADDITIONAL MAJOR FACTOR IN INDIA'S EXPORT PERFORMANCE FOR MANUFACTURED GOODS WOULD BE DEGREE TO WHICH INDIA BEGINS ALLOW IMPORT COMPETITION TO FORCE GREATER EFFICIENCY OF LOCAL PRODUCTION. U.S. CITED TWO RECENT WORLD BANK PUBLICATIONS GIVING EVIDENCE OF MASSIVE INEFFICIENCY OF INDIAN ECONOMY FOSTERED BY PROTECTION FROM IMPORT COMPETITION (IBRD ECONOMIC SITUATION AND PROSPECTS

OF INDIA, MAY 8, 1973 AND IBRD INDIA'S EXPORT PROSPECTS,
VOL. I, MAY 27, 1971).

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5. EC, FRENCH, JAPAN, CANADIAN DELS EXPRESSED CONCERN OVER COMPLEXITY OF INDIAN IMPORT RESTRICTIVE SYSTEM. U.S. DEL ASKED FOR CONCISE STATEMENT OF HOW INDIA'S IMPORT CONTROL SYSTEM IS SUPPOSED TO OPERATE AND OF CRITERION FOR REMOVING ITEMS FROM PERMITTED LIST AND FOR RETURNING THEM TO LIST. INDIAN DEL SAID ANYTHING NOT ON ANNUAL LIST OF PERMITTED IMPORTS IS EITHER NOT PERMITTED OR IS ALLOWED AD-HOC, DEPENDING UPON CURRENT STATUS OF DEVELOPMENT PRIORITIES. BASIC POLICY IS THAT INDIA HAS ONLY LIMITED FOREIGN EXCHANGE TO RATION AGAINST IMPORT NEEDS AND "DOES NOT WANT TO IMPORT ANYTHING UNLESS IT IS ABSOLUTELY NECESSARY". THERE IS EXTENSIVE NETWORK OF COMMITTEES, TRADE ASSOCIATIONS, AND BOARD OF TRADE OFFICES WHICH CONDUCT ENDLESS MEETINGS, CONSULTATIONS, AND DISCUSSIONS TO DETERMINE IMPORT PRIORITIES ON AN AD-HOC BASIS. INDIA DEL ADMITTED SYSTEM WAS LABORIOUS AND CUMBERSOME BUT SAID SINCE PROCEDURE IS ESSENTIALLY AD-HOC, GOVERNMENT OF INDIA CANNOT SAY IN ADVANCE WHETHER AN IMPORT WILL BE ALLOWED UNTIL IT IS APPLIED FOR. THUS, CONCISE LIST OF ALL PROHIBITED

ITEMS CANNOT BE GIVEN, AND INTERPRETATION OF STATUS OF
ITEMS WHICH ARE OFF PERMITTED LIST IS MEANINGLESS.
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INDIA DEL SAID ALL THIS IS DONE UNDER GATT ARTICLE XVIII.

6. BEFORE DISCUSSION SPECIFIC GATT PROVISIONS FOR MAINTAINING
RESTRICTIONS, U.S. DEL DREW ATTENTION TO GATT ARTICLE X, WHICH
REQUIRES THAT IMPORT REGULATIONS BE ADMINISTERED "IN A UNIFORM,
IMPARTIAL, AND REASONABLE MANNER" AND WHICH PROVIDES THAT "FULL
INFORMATION" OF IMPORT PROCEDURES BE GIVEN. CHAIRMAN (DUNKEL)
WAS THEN DRAWN INTO LENGTHY AND UNPRODUCTIVE DEBATE WITH
URUGUAYAN REP OVER WHETHER BOP COMMITTEE CAN DISCUSS
PROVISIONS OF GATT OTHER THAN THOSE DEALING WITH BOP
RESTRICTIONS. HOWEVER, OTHER DELS ALSO TOOK UP CLARITY ISSUE,
AND CHAIR, SUPPORTED BY U.S. AND OTHERS, SUGGESTED INDIA MAY
WISH CONSIDER SIMPLIFYING IMPORT REGULATIONS UNDER UNIFIED
SYSTEM WHEN CONVERTING TO BRUSSELS TARIFF NOMENCLATURE.

7. INDIAN DEL SAID "ALL OF GATT ARTICLE XVIII B" AUTHORIZED
INDIAN RESTRICTIONS AS APPLIED, BUT WHEN PRESSED BY U.S. SAID
REFERENCE WAS PRIMARILY SECTIONS 10 AND 11 OF THAT ARTICLE. U.S.
DEL POINTED OUT THAT BOTH OF THESE SECTIONS ARE TIED TO SECTION 9,
WHICH ONLY ALLOWS IMPORT SUBSTITUTION ACTIVITIES AS
DESCRIBED BY INDIAN DEL TO BE TIED TO "THREAT OF" OR
"TO STOP" A SERIOUS DECLINE IN RESERVES OR "TO ACHIEVE A
REASONABLE RATE OF INCREASE IN ITS RESERVES". ADEQUACY OF
RESERVES ALONE WAS GOVERNING FACTOR. WHILE NOT CHALLENGING
INDIA'S RIGHT TO ALLOCATE FOREIGN EXCHANGE TO ECONOMIC
PRIORITIES UNDER ARTICLE XVIII, U.S. DEL STATED THAT INDIAN
EXPLANATION OF OWN CONTROL SYSTEM DEMONSTRATES THEY HAVE GONE
BEYOND THE CONTROLS NECESSARY TO MAINTAIN REASONABLE RESERVES.
CURRENT FOOD IMPORT NEEDS NOTWITHSTANDING, INDIA HAD STEADILY
REMOVED A NET OF OVER A HUNDRED ITEMS PER YEAR FROM LIST
OF PERMITTED IMPORTS DURING TIME WHEN ITS RATIO OF RESERVES TO
IMPORTS HAS SEEN UNINTERRUPTED GROWTH FROM 26.9 PERCENT IN
1968 TO OVER 50 PERCENT TODAY. IF RESTRICTIONS WERE BEING
APPLIED APPROPRIATELY UNDER ARTICLE XVIII, NUMBER OF ITEMS
REMOVED FROM PERMITTED LIST SHOULD HAVE DECLINED, NOT GROWN,
WHILE RESERVES INCREASED.

8. INDIAN DEL DENIED COMPARISON WAS MEANINGFUL. JAPAN
REPEATED THAT RESERVES HAD IMPROVED AND REFERRED TO RESTRICTIONS
AS EXCESSIVE AND COMPLICATED, HOPED INDIA COULD NOW BEGIN TO
LIBERALIZE AND SIMPLIFY, AND SAID HE FELT THIS HAD BEEN CONSENSUS
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OF COMMITTEE. EC SAID THEY TAKE NOT STAND ON WHETHER MEASURES EXCESSIVE BUT FEEL SYSTEM IS TOO DIFFICULT TO UNDERSTAND. AUSTRALIAN DEL SYMPATHIZED WITH INDIAN POSITION. INDIAN DEL SAID THEY FELT PROCEDURES CLEAR BUT ARE SIMPLIFYING THEM, THEN ADDED REFRESHING RELIEF BY EXPRESSING SURPRISE THAT COMMITTEE HAD NOT PRAISED INDIA FOR LIBERAL ADMINISTRATION OF IMPORT SYSTEM UNDER DIFFICULT CIRCUMSTANCES.

9. COMMENTS: THIS BOP CONSULTATION AT THE LEASE ACCOMPLISHED THOROUGH AIRING OF INDIA'S IMPORT SYSTEM, AND SOME DELS WHO DID NOT WISH PARTICIPATE ACTIVELY SEEM NONETHELESS TO HAVE BEEN TAKEN ABACK BY CUMBERSOME RESTRICTIVE MONSTER LAID OUT BEFORE THEM. INDIA DEL CLEARLY AT PAINS TO DEMONSTRATE FUNDAMENTAL RATIONALITY OF SYSTEM AND TO CREATE IMPRESSION THAT LIBERALIZATION IS ALREADY TAKING PLACE. EFFECTIVENESS OF U.S. PARTICIPATION WAS ENHANCED BY PRESENCE OF ADVISER FROM EMBASSY, NEW DELHI (KENNON).BASSIN

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